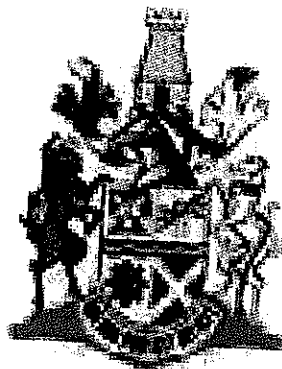


THE DRAFT ANNUAL FINANCIAL STATEMENTS FOR 2016/2017



NEWCASTLE MUNICIPALITY
(Registration number KZ252)

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

General Information

Mayor

Executive Committee

Cllr EM Nkosi

Cllr DP Sibiya

Cllr VV Bam

Cllr RN Mdluli

Cllr RM Molelekoa

Cllr M Shunmugam

Cllr SM Thwala

Cllr NA Zwane

Cllr BV Khumalo

Cllr LL Bosman

Cllr MV Buhali

Cllr AA Coka

Cllr EJC Cronje

Cllr TJC Danisa

Cllr XNM Dladla

Cllr BB Dlamini

Cllr DX Dube

Cllr FP Gama

Cllr VF Hadabe

Cllr TS Hlabisa

Cllr A Khoza

Cllr JCN Khumalo (Speaker)

Cllr VD Kubheka

Cllr NP Kunene

Cllr CY Liu

Cllr FA Malinga

Cllr NK Majazi

Cllr NY Mbatha

Cllr AM Mbuli

Cllr AP Meiring

Cllr SG Miya

Cllr NG Mnguni

Cllr MV Molefe

Cllr HN Mkhwanazi

Cllr TP Mkhwanazi

Cllr MB Mlangeni

Cllr MV Mthembu

Cllr VP Nzima

Cllr TM Ndaba

Cllr RB Ndimba

Cllr SS Ndlangamandla

Cllr MB Ndlovu

Cllr PF Ndlovu

Cllr ME Ngcobo

Cllr NM Ngcobo

Cllr BC Ngema

Cllr DR Ngema

Cllr N Ngwenya

Cllr CL Nhlapho

Cllr SJ Nhlapho

Councillors

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

General Information

	Cllr SN Nkosi
	Cllr JB Mkhwanazi
	Cllr TM Nzuze
	Cllr SE Shabalala
	Cllr DM Sibilwane
	Cllr DP Sibiya
	Cllr LT Sikhosana
	Cllr SL Stein
	Cllr GMB Thwala
	Cllr SM Thwala
	Cllr MW Thwala
	Cllr DR JA Voster
	Cllr SA Yende
	Cllr MF Zikhali
	Cllr NS Zulu
	Cllr SJ Zulu
	Cllr TM Zulu
Grading of local authority	4
Accounting Officer	BE Mswane
Chief Finance Officer (CFO)	SM Nkosi
Registered office	37 Murchison Street Newcastle 2940
Business address	37 Murchison Street Newcastle 2940
Postal address	Private Bag X 6621 Newcastle 2940
Bankers	First National Bank

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
UIF	Unemployment Insurance Fund
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance Audit and Risk Officer
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
ABSA	Amalgamated Banks of Southern Africa
AFS	Annual Financial Statements
SALGA	South African Local Government and Traditional Affairs

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

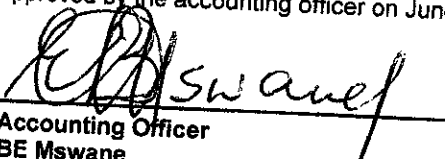
The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 6 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on June 30, 2017 and were signed on its behalf by:


Accounting Officer
BE Mswane

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Financial Position as at June 30, 2017

Figures in Rand

	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories			
Other financial assets	9	15,223,528	13,380,566
Receivables from exchange transactions	8	5,791	7,922
Receivables from non-exchange transactions	10	42,011,583	31,698,628
VAT receivable	11	12,116,267	11,139,662
Consumer debtors from exchange transactions	12	-	10,753,011
Consumer debtors from non-exchange transactions	13	372,834,942	332,594,894
Cash and cash equivalents	13	79,791,581	62,501,965
	14	50,507,758	44,572,895
		572,491,450	506,649,543
Non-Current Assets			
Investment property			
Property, plant and equipment	3	365,272,000	275,974,000
Intangible assets	4	7,056,677,338	7,353,829,849
Heritage assets	5	8,400,402	10,853,711
Investments in associates	6	6,991,102	6,326,820
	7	310,200,549	342,383,219
		7,747,541,391	7,989,367,599
Total Assets		8,320,032,841	8,496,017,142
Liabilities			
Current Liabilities			
Other financial liabilities			
Finance lease obligation	17	32,002,485	29,375,168
Payables from exchange transactions	15	168,853	65,694
VAT payable	20	445,315,582	359,510,386
Consumer deposits		2,390,525	-
Unspent conditional grants and receipts	21	14,334,239	12,752,606
Defined Benefit Plan	16	41,556,011	32,408,992
	18	6,215,831	5,775,189
		541,983,526	439,888,035
Non-Current Liabilities			
Other financial liabilities			
Finance lease obligation	17	447,215,530	458,502,484
Defined Benefit Plan	15	234,909	25,920
Provision for rehabilitation costs of landfill site	18	128,168,731	120,075,542
	19	31,217,649	26,814,753
		606,836,819	605,418,699
Total Liabilities		1,148,820,345	1,045,306,734
Net Assets		7,171,212,496	7,450,710,408
Reserves			
Housing Development fund			
Self insurance reserve		25,071,001	26,037,234
Accumulated surplus		530,020	708,555
		7,145,611,470	7,423,964,619
Total Net Assets		7,171,212,491	7,450,710,408

* See Note 45

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Financial Performance

Figures in Rand

	Note(s)	2017	2016 Restated*
Revenue			
Service charges	23	948,273,264	914,750,787
Rental of facilities and equipment	24	7,278,218	7,918,136
Profit on sale of Assets		-	769,797
Sundry revenue		3,647,339	9,862,557
Other income		1,303,488	1,397,723
Fee income		7,854,510	5,261,709
Interest received	26	14,835,339	19,673,326
Property Rates	27	232,285,813	214,713,798
Government grants & subsidies	28	527,822,316	467,501,529
Fines		3,605,936	5,205,647
Gain on Actuarial Valuations		3,559,453	-
Total revenue		1,750,465,676	1,647,055,009
Expenditure			
Employee costs	29	489,819,658	489,601,018
Remuneration of councillors	30	20,389,056	18,453,108
Depreciation and amortisation	31	472,119,084	456,740,714
Impairment of assets	32	1,348,277	2,590,041
Finance costs	33	65,783,550	66,141,054
Debt Impairment	34	100,303,930	542,782,561
Collection costs		8,802,170	19,792,327
Repairs and maintenance	4	85,654,026	114,467,606
Bulk purchases	35	558,945,739	513,530,461
Contracted services	36	61,245,745	86,633,547
General Expenses	37	222,485,641	254,150,517
Loss on Actuarial Valuation		-	3,472,031
Total expenditure		2,086,896,876	2,568,354,985
Operating deficit		(336,431,200)	(921,299,976)
Share of deficit in investment in associates		(32,182,669)	(38,810,359)
Fair value adjustments to investment property		89,298,000	68,746,810
		57,115,331	29,936,451
Deficit for the year		(279,315,869)	(891,363,525)

* See Note 45

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Changes in Net Assets

Figures in Rand	Donations and public contributions	Insurance reserve	Total reserves	Accumulated surplus	Total net assets
Balance at July 1, 2015	22,413,837	7,471,767	29,885,604	8,220,512,442	8,250,398,046
Changes in net assets	-	-	-	-	-
Deficit for the year	-	-	-	(891,363,525)	(891,363,525)
Transfer to Housing Development fund	3,623,397	-	3,623,397	5,307,684	8,931,081
Transfer to Self Insurance Reserve	-	(6,763,212)	(6,763,212)	6,741,712	(21,500)
Movement in the current year	-	-	-	6,004,675	6,004,675
Adjustment on Investment in Associates See note 45	-	-	-	(3,938,007)	(3,938,007)
Prior year error on Assets - See note 45	-	-	-	80,699,638	80,699,638
Total changes	3,623,397	(6,763,212)	(3,139,815)	(796,547,823)	(799,687,638)
Restated* Balance at July 1, 2016	26,037,234	708,555	26,745,789	7,423,964,619	7,450,710,408
Deficit for the year	-	-	-	-	-
Transfer of income surplus to trust capital	(966,233)	-	(966,233)	(279,315,869)	(279,315,869)
Transfer of capital surplus to trust capital	-	(178,535)	(178,535)	966,233	-
Recognising Nedbank deposits	-	-	-	178,535	-
Adjustment on Assets	-	-	-	375,174	375,174
Total changes	(966,233)	(178,535)	(1,144,768)	(557,222)	(557,222)
Balance at June 30, 2017	25,071,001	530,020	25,601,021	7,145,611,470	7,171,212,491

* See Note 45

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Cash Flow Statement

Figures in Rand

	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		1,077,297,388	970,237,523
Grants		536,797,337	464,077,142
Interest income		14,835,339	19,673,326
		<u>1,628,930,064</u>	<u>1,453,987,991</u>
Payments			
Employee costs and Councillors remuneration		(510,208,714)	(508,054,126)
Suppliers		(819,249,578)	(855,626,269)
Finance costs		(65,783,550)	(66,141,054)
		<u>(1,395,241,842)</u>	<u>(1,429,821,449)</u>
Net cash flows from operating activities	40	<u>233,688,222</u>	<u>24,166,542</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(219,374,430)	(306,804,404)
Proceeds from sale of property, plant and equipment	4	-	1,117,822
Proceeds from sale of Investment property	3	-	570,176
Purchase of other intangible assets	5	(26,590)	(3,592,321)
Purchases of Heritage Assets	6	(4,850)	(41,600)
Net cash flows from investing activities		<u>(219,405,870)</u>	<u>(308,750,327)</u>
Cash flows from financing activities			
Net movements in long term loans		(8,659,637)	(11,361,825)
Movement on finance lease		312,148	(294,419)
Net cash flows from financing activities		<u>(8,347,489)</u>	<u>(11,656,244)</u>
Net increase/(decrease) in cash and cash equivalents		<u>5,934,863</u>	<u>(296,240,029)</u>
Cash and cash equivalents at the beginning of the year		44,572,895	340,812,924
Cash and cash equivalents at the end of the year	14	<u>50,507,758</u>	<u>44,572,895</u>

* See Note 45

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1,084,005,183	(46,405,755)	1,037,599,428	948,273,264	(89,326,164)	Refer to Appendix E
Rental of facilities and equipment	7,326,268	1	7,326,269	7,278,218	(48,051)	
Other income	6,357,408	(983,065)	5,374,343	3,647,339	(1,727,004)	
Sundry sales	6,357,408	(983,065)	5,374,343	1,303,488	(4,070,855)	
Fee income	6,357,406	(983,064)	5,374,342	7,854,510	2,480,168	
Interest received	10,099,000	5,652,259	15,751,259	14,835,339	(915,920)	
Total revenue from exchange transactions	1,120,502,673	(43,702,689)	1,076,799,984	983,192,158	(93,607,826)	
Revenue from non-exchange transactions						
Property rates	256,072,025	6,828,790	262,900,815	232,285,813	(30,615,002)	
Transfer revenue						
Government grants & subsidies	325,438,029	6,050,000	331,488,029	527,822,316	196,334,287	
Fines, Penalties and Forfeits	7,661,370	(2,457,024)	5,204,346	3,605,936	(1,598,410)	
Gain on Actuarial valuation	-	-	-	3,559,453	3,559,453	
Total revenue from non-exchange transactions	589,171,424	10,421,766	599,593,190	767,273,518	167,680,328	
Total revenue	1,709,674,097	(33,280,923)	1,676,393,174	1,750,465,676	74,072,502	
Expenditure						
Employee costs	(476,620,392)	4,145,459	(472,474,933)	(489,819,658)	(17,344,725)	Refer to Appendix E
Remuneration of councillors	(21,022,584)	367,788	(20,654,796)	(20,389,056)	265,740	
Depreciation and amortisation	(330,120,627)	(39,466,786)	(369,587,413)	(472,119,084)	(102,531,671)	
Impairment loss/ Reversal of impairments	(1,203,300)	-	(1,203,300)	(1,348,277)	(144,977)	
Finance costs	(61,899,164)	11,237,006	(50,662,158)	(65,783,550)	(15,121,392)	
Debt Impairment	(61,006,705)	(27,248,897)	(88,255,602)	(100,303,930)	(12,048,328)	
Collection costs	(19,186,000)	10,636,000	(8,550,000)	(8,802,170)	(252,170)	
Repairs and maintenance	(84,457,424)	29,536,162	(54,921,262)	(85,654,026)	(30,732,764)	
Bulk purchases	(577,973,394)	27,641,574	(550,331,820)	(558,945,739)	(8,613,919)	
Contracted Services	(52,490,350)	5,771,623	(46,718,727)	(61,245,745)	(14,527,018)	
General Expenses	(269,751,156)	(39,717,418)	(309,468,574)	(222,485,641)	86,982,933	
Total expenditure	(1,955,731,096)	(17,097,489)	(1,972,828,585)	(2,086,896,876)	(114,068,291)	
Operating deficit	(246,056,999)	(50,378,412)	(296,435,411)	(336,431,200)	(39,995,789)	
Share of Surplus/Deficit of Investment in Associates	-	-	-	(32,182,669)	(32,182,669)	
Fair value adjustment to investment property	-	-	-	89,298,000	89,298,000	
Deficit before taxation	(246,056,999)	(50,378,412)	(296,435,411)	(279,315,869)	17,119,542	

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(246,056,999)	(50,378,412)	(296,435,411)	(279,315,869)	17,119,542	

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	13,118,081	262,566	13,380,647	15,223,528	1,842,881	Refer to Appendix E
Other financial assets	11,000	(3,078)	7,922	5,791	(2,131)	
Receivables from exchange transactions	56,133,853	(14,658,594)	41,475,259	42,011,583	536,324	
Receivables from non-exchange transactions	12,116,267	-	12,116,267	12,116,267	-	
Consumer debtors	489,882,557	(94,785,171)	395,097,386	452,626,524	57,529,138	
Cash and cash equivalents	40,554,494	(2,533,000)	38,021,494	50,507,758	12,486,264	
	611,816,252	(111,717,277)	500,098,975	572,491,451	72,392,476	
Non-Current Assets						
Investment property	265,125,000	10,849,000	275,974,000	365,272,000	89,298,000	
Property, plant and equipment	3,925,099,511	3,252,714,252	7,177,813,763	7,056,677,338	(121,136,425)	
Intangible assets	6,138,321	2,401,564	8,539,885	8,400,402	(139,483)	
Heritage assets	3,024,899	3,301,820	6,326,719	6,991,102	664,383	
Investments in associates	421,324,163	(75,002,774)	346,321,389	310,200,549	(36,120,840)	
	4,620,711,894	3,194,263,862	7,814,975,756	7,747,541,391	(67,434,365)	
Total Assets	5,232,528,146	3,082,546,585	8,315,074,731	8,320,032,842	4,958,111	
Liabilities						
Current Liabilities						
Other financial liabilities	32,023,211	(2,816,932)	29,206,279	32,002,485	2,796,206	Refer to Appendix E
Finance lease obligation	168,853	-	168,853	168,853	-	
Payables from exchange transactions	134,447,855	160,471,378	294,919,233	445,315,582	150,396,349	
VAT payable	-	-	-	2,390,525	2,390,525	
Consumer deposits	13,389,469	(636,394)	12,753,075	14,334,239	1,581,164	
Unspent conditional grants and receipts	-	-	-	41,556,011	41,556,011	
Defined Benefit Plan	4,926,615	913,847	5,840,462	6,215,831	375,369	
	184,956,003	157,931,899	342,887,902	541,983,526	199,095,624	
Non-Current Liabilities						
Other financial liabilities	527,904,605	(69,687,516)	458,217,089	447,215,530	(11,001,559)	
Finance lease obligation	234,909	-	234,909	234,909	-	
Defined Benefit Plan	116,686,976	(234,869)	116,452,107	128,168,731	11,716,624	
Provision for rehabilitation costs of landfill site	31,217,649	-	31,217,649	31,217,649	-	
	676,044,139	(69,922,385)	606,121,754	606,836,819	715,065	
Total Liabilities	861,000,142	88,009,514	949,009,656	1,148,820,345	199,810,689	
Net Assets	4,371,528,004	2,994,537,071	7,366,065,075	7,171,212,497	(194,852,578)	

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Housing Development Fund	37,957,244	(11,747,000)	26,210,244	25,071,001	(1,139,243)	
Insurance reserve	525,250	-	525,250	530,020	4,770	
Accumulated surplus	4,333,045,510	3,006,284,071	7,339,329,581	7,145,611,474	(193,718,107)	
Total Net Assets	4,371,528,004	2,994,537,071	7,366,065,075	7,171,212,495	(194,852,580)	

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods	1,142,024,236	3,392,279	1,145,416,515	1,077,297,388	(68,119,127)	
Grants	510,588,028	46,586,281	557,174,309	536,797,337	(20,376,972)	
Interest received	5,219,800	2,304,776	7,524,576	14,835,339	7,310,763	
	1,657,832,064	52,283,336	1,710,115,400	1,628,930,064	(81,185,336)	
Payments						
Employee costs and payments to suppliers	(1,380,394,359)	(41,109,313)	(1,421,503,672)	(1,329,458,292)	92,045,380	
Finance costs	(61,899,164)	11,587,001	(50,312,163)	(65,783,550)	(15,471,387)	
	(1,442,293,523)	(29,522,312)	(1,471,815,835)	(1,395,241,842)	76,573,993	
Net cash flows from operating activities	215,538,541	22,761,024	238,299,565	233,688,222	(4,611,343)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(275,634,835)	56,442,600	(219,192,235)	(219,374,430)	(182,195)	
Proceeds from sale of property, plant and equipment	2,012,010	-	2,012,010	-	(2,012,010)	
Purchase of other intangible assets	-	-	-	(26,590)	(26,590)	
Proceeds from sale of heritage assets	-	-	-	(4,850)	(4,850)	
Net cash flows from investing activities	(273,622,825)	56,442,600	(217,180,225)	(219,405,870)	(2,225,645)	
Cash flows from financing activities						
Movement in long term loans	(32,192,064)	2,816,832	(29,375,232)	(8,659,637)	20,715,595	
Movement in finance leases	-	-	-	312,148	312,148	
Consumer deposits	1,132,000	572,522	1,704,522	-	(1,704,522)	
Net cash flows from financing activities	(31,060,064)	3,389,354	(27,670,710)	(8,347,489)	21,027,743	
Net increase/(decrease) in cash and cash equivalents	(89,144,348)	82,592,978	(6,551,370)	5,934,863	14,190,755	
Cash and cash equivalents at the beginning of the year	39,182,000	5,390,985	44,572,985	44,572,895	(90)	
Cash and cash equivalents at the end of the year	(49,962,348)	87,983,963	38,021,615	50,507,758	14,190,665	

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s31 of the MFMA)	Final adjustments (i.t.o. s28 and budget)	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2017											
Financial Performance											
Property rates	256,072,025	6,828,790	262,900,815	-	-	262,900,815	232,285,813	-	(30,615,002)	88 %	91 %
Service charges	1,084,005,183	(46,405,755)	1,037,599,428	-	-	1,037,599,428	948,273,264	-	(89,326,164)	91 %	87 %
Investment revenue	10,099,000	5,652,259	15,751,259	-	-	15,751,259	14,835,339	-	(915,920)	94 %	147 %
Transfers recognised - operational	325,438,029	6,050,000	331,488,029	-	-	331,488,029	527,822,316	-	196,334,287	159 %	162 %
Other own revenue	34,059,862	(5,406,219)	28,653,643	-	-	28,653,643	27,248,944	-	(1,404,699)	95 %	80 %
Total revenue (excluding capital transfers and contributions)	1,709,674,099	(33,280,925)	1,676,393,174	-	-	1,676,393,174	1,750,465,676	-	74,072,502	104 %	102 %
Employee costs	(476,620,392)	4,145,459	(472,474,933)	-	-	(472,474,933)	(489,819,658)	-	(17,344,725)	104 %	103 %
Remuneration of councillors	(21,022,584)	367,788	(20,654,796)	-	-	(20,654,796)	(20,389,056)	-	265,740	99 %	97 %
Debt impairment	(61,006,705)	(27,248,897)	(88,255,602)	-	-	(88,255,602)	(100,303,930)	-	(12,048,328)	114 %	164 %
Depreciation and asset impairment	(330,120,627)	(39,466,786)	(369,587,413)	-	-	(369,587,413)	(473,467,361)	-	(103,879,948)	128 %	143 %
Finance charges	(61,899,164)	11,237,006	(50,662,158)	-	-	(50,662,158)	(65,783,550)	-	(15,121,392)	130 %	106 %
Materials and bulk purchases	(577,973,394)	27,641,574	(550,331,820)	-	-	(550,331,820)	(558,945,739)	-	(8,613,919)	102 %	97 %
Other expenditure	(427,088,230)	6,226,367	(420,861,863)	-	-	(420,861,863)	(378,187,582)	-	42,674,281	90 %	89 %
Total expenditure	(1,955,731,096)	(17,097,489)	(1,972,828,585)	-	-	(1,972,828,585)	(2,086,896,876)	-	(114,068,291)	106 %	107 %
Surplus/(Deficit)	(246,056,997)	(50,378,414)	(296,435,411)	-	-	(296,435,411)	(336,431,200)	-	(39,995,789)	113 %	137 %
Share of surplus (deficit) of associate	-	-	-	-	-	-	34,573,222	-	34,573,222	DIV/0 %	DIV/0 %
Fair value adjustments	-	-	-	-	-	-	(89,298,000)	-	(89,298,000)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	(246,056,997)	(50,378,414)	(296,435,411)	-	-	(296,435,411)	(281,706,422)	-	14,728,989	95 %	114 %

Newcastle Municipality

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments (i.t.o. s31 of the MFMA)	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	215,538,541	22,761,024	238,299,565	-	-	238,299,565	233,688,222		(4,611,343)	98 %	108 %
Net cash from (used) investing	(273,622,825)	56,442,600	(217,180,225)	-	-	(217,180,225)	(219,405,870)		(2,225,645)	101 %	80 %
Net cash from (used) financing	(31,060,064)	3,389,354	(27,670,710)	-	-	(27,670,710)	(8,347,489)		19,323,221	30 %	27 %
Net increase/(decrease) in cash and cash equivalents	(89,144,348)	82,592,978	(6,551,370)	-	-	(6,551,370)	5,934,863		12,486,233	(91)%	(7)%
Cash and cash equivalents at the beginning of the year	39,182,000	5,390,985	44,572,985	-	-	44,572,985	44,572,895		(90)	100 %	114 %
Cash and cash equivalents at year end	(49,962,348)	87,983,963	38,021,615	-	-	38,021,615	50,507,758		(12,486,143)	133 %	(101)%

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months. The basis presume that funds will be available to finance future operations and that realisation of .

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Accounting Policies

1.4 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.4 Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Plant and machinery	Straight line	5 years
Furniture and fixtures	Straight line	7 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
IT equipment	Straight line	5 years
Computer software	Straight line	5 years
Infrastructure	Straight line	7-80 years
Community	Straight line	5-80 Years
Other property, plant and equipment	Straight line	5-10 Years
Heritage	Straight line	Infinite

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Accounting Policies

1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.6 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.7 Heritage assets (continued)

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Investments in associates

An associate is an entity in which the investor has significant influence and which is neither a controlled nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decision of the investee, but is not control over those policies. The municipality exercise judgment in the context of all available information to determine if it has significant influence over an investee.

The municipality commences accounting for an investment in an associate from the date significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate. Investments that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures of financial instruments depending on the nature of the retained investment.

The municipality accounts for investment in associate under the equity method in the financial statements. The equity method involves recognising the investment in associate initially at cost, then adjusting for any changes in the investors share of net assets since acquisition. A single line item in the Statements of Financial Performance presents the investors share of the associates surplus or deficit for the year.

The municipality uses the most recent available financial statements of the associates in applying the equity method. Where the reporting period of the associate and the municipality are different, separate financial statements for the same period are prepared by the associate unless it is impracticable to do so. When the reporting dates are different, the municipality makes adjustments to the effect of any significant events or transactions between the investor and the associate that occur between the associate and the municipality. Adjustments are made to ensure consistency between the accounting policies of the municipality and associate.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Accounting Policies

1.9 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest in another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Newcastle Municipality

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Accounting Policies

1.9 Financial instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost.

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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Accounting Policies

1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Cash and Cash Equivalent

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of twelve months or less and are subject to an insignificant risk of change in value. For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as Financial assets. The closing balance on the bank account is representative of its fair value of the monies held.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

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Accounting Policies

1.11 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.15 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Accounting Policies

1.15 Employee benefits (continued)

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.15 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.15 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.16 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent the municipality has complied with any of the criteria, condition or obligation embodied in the agreement, to the extent the criteria, condition or obligation have not been met a liability is recognised.

1.17 Budget Information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2016 to 6/30/2017.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.18 Cash and cash equivalent

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of twelve months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as Financial assets. The closing balance on the bank account is representative of its fair value of the monies held.

Accounting Policies

1.19 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.19 Provisions and contingencies (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.19 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.20 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Newcastle Municipality

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Accounting Policies

1.20 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

1.21 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

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Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.22 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.23 Self Insurance fund

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

1.24 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.25 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

Accounting Policies

1.25 Unauthorised expenditure (continued)

- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.27 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.28 Capital Commitment

Capital commitments are approved and contracted for when the tender is awarded to the contractor and valid contracts have been signed by both the Accounting Officer and the contractor.

Capital commitments are approved but not yet contracted for are those capital projects that are appropriated in the capital budget and which are approved by council. These are municipal capital projects for which the tendering process has not commenced and therefore not yet allocated to a contractor through competitive bidding process.

Newcastle Municipality

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1.29 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.30 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.32 Assets under construction

The cost of property, plant and equipment that is under construction as of the reporting date is recognised as an asset if:

- (a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
- (b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consists of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. Expenditure comprises direct labour, material and overhead, if appropriate

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2017 or later periods:

Standard/ Interpretation:

Effective date: Years beginning on or after

Expected impact:

• GRAP 32	Service Concession Arrangements: Grantor	July 1, 2018	Unlikely there will be a material impact
• GRAP 34	Separate Financial Statements	July 1, 2018	Unlikely there will be a material impact
• GRAP 35	Consolidated Financial Statements	July 1, 2018	Unlikely there will be a material impact
• GRAP 36	Investments in Associates and Joint Ventures	July 1, 2018	Unlikely there will be a material impact
• GRAP 37	Joint Arrangements	July 1, 2018	Unlikely there will be a material impact
• GRAP 38	Disclosure of Interest in Other Entities	July 1, 2018	Unlikely there will be a material impact
• GRAP 108	Statutory Receivables	July 1, 2018	Unlikely there will be a material impact
• GRAP 20:	Related parties	Unknown	Unlikely there will be a material impact
• GRAP 26 (as amended 2015):	Impairment of cash-generating assets	Unknown	Unlikely there will be a material impact
• GRAP 109:	Accounting by Principals and Agents	Unknown	Unlikely there will be a material impact
• GRAP 21 (as amended 2015):	Impairment of non-cash-generating assets	Unknown	Unlikely there will be a material impact

3. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	365,272,000	-	365,272,000	275,974,000	-	275,974,000

Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	275,974,000	89,298,000	365,272,000

Reconciliation of investment property - 2016

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	207,527,190	(300,000)	68,746,810	275,974,000

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3. Investment property (continued)

Details of valuation

The effective date of the revaluations was Friday, June 30, 2017. Revaluations were performed by an independent valuer, Abubaker Rahim, of Evaluations Property Intelligence.

The valuation was based on open market value for existing use.

The value for municipal properties is, totaling R 365,272,000 (2016: R 275,974,000). Investment property values were adjusted by the fair value adjustment of R 89 598 000.00 which was recognised in the surplus and deficit for the current year.

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	89,298,000	68,746,810
Direct operating expenses from rental generating property	-	1,867,018

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4. Property, plant and equipment

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Revaluations	Adjustments	Depreciation	Total
Land	48,096,501	-	218,000	1,562,349	-	(290,479)	49,586,371
Buildings	44,664,748	-	369,626,289	-	(36,727)	(13,785,745)	400,468,565
Infrastructure	6,395,243,789	-	137,818,780	-	(1,167,921)	(427,365,696)	6,104,528,952
Community	100,182,653	101,100	1,490,257	-	1,297,201	(3,587,154)	99,484,057
Work in progress	695,369,837	217,440,197	(541,774,360)	-	(39,260,336)	-	331,775,338
Finance lease assets	91,160	467,136	-	-	-	(266,051)	292,245
Other property, plant and equipment	70,181,170	1,365,997	23,437,893	-	-	(24,443,241)	70,541,819
	7,353,829,858	219,374,430	(9,183,141)	1,562,349	(39,167,783)	(469,738,366)	7,056,677,347

Reconciliation of property, plant and equipment - 2016 restated

	Opening balance	Additions	Disposals	Transfers	Revaluations	Adjustments	Depreciation	Total
Land	50,698,299	-	-	3,800,000	-	(2,946,968)	(3,454,830)	48,096,501
Buildings	42,901,434	-	-	4,123,476	-	-	(2,360,162)	44,664,748
Infrastructure	6,429,125,739	-	-	312,196,413	80,203,252	-	(426,281,615)	6,395,243,789
Community	78,495,239	-	-	25,486,714	-	(3,926)	(3,795,374)	100,182,653
Work in progress	800,819,998	294,135,120	-	(399,585,281)	-	-	-	695,369,837
Finance lease assets	608,168	135,888	(618,200)	2,287,575	-	-	(652,896)	91,160
Other property, plant and equipment	75,613,878	12,533,396	(618,200)	2,287,575	-	(1,813,728)	(17,821,751)	70,181,170
	7,478,262,755	306,804,404	(618,200)	(51,691,103)	80,203,252	(4,764,622)	(454,366,628)	7,353,829,858

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4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	217,858,315	32,936,080	444,642,695	695,437,090
Additions/capital expenditure	194,703,667	7,932,162	14,804,368	217,440,197
Other movements [specify]	(22,261,589)	(145,411)	(24,359,227)	(46,766,227)
Transferred to completed items	(136,996,805)	(1,366,761)	(395,972,157)	(534,335,723)
	<u>253,303,588</u>	<u>39,356,070</u>	<u>39,115,679</u>	<u>331,775,337</u>

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Land Maintenance	1,053,723	1,001,700
Building Maintenance	8,412,696	9,494,372
Infrastructure Maintenance	69,675,468	96,379,990
Heritage Maintenance	-	1,345
Other assets maintenance	6,512,139	7,590,199
	<u>85,654,026</u>	<u>114,467,606</u>

5. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	15,709,437	(7,309,035)	8,400,402	15,187,438	(4,333,727)	10,853,711

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	10,853,711	26,590	495,408	(2,975,307)	8,400,402

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Transfers	Prior year adjustments	Amortisation	Total
Computer software	1,759,720	3,592,321	5,512,645	2,314,146	(2,325,121)	10,853,711

6. Heritage assets

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Museums, painting and artifacts	6,991,102	-	6,991,102	6,326,820	-	6,326,820

Reconciliation of heritage assets 2017

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6. Heritage assets (continued)

	Opening balance	Additions	Transfers	Total
Museums, painting and artifacts	6,326,820	4,850	659,432	6,991,102

Reconciliation of heritage assets 2016

	Opening balance	Additions	Transfers	Revaluation increase/(decr ease)	Total
Museums, painting and artifacts	2,964,899	41,600	356,337	2,963,984	6,326,820

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7. Investments in associates

Name of entity	Listed / Unlisted	% holding 2017	% holding 2016	Carrying amount 2017	Carrying amount 2016
Uthukela Water Pty LTD		34.00 %	34.00 %	310,200,549	342,383,219

The carrying amounts of associates are shown net of impairment losses.

Movements in carrying value

Opening balance	342,383,219	385,131,585
Share of surplus/deficit	(32,182,670)	(38,810,359)
Other movements	-	(3,938,007)
	310,200,549	342,383,219

8. Other financial assets

At amortised cost
Stand debtors

5,791 7,922

9. Inventories

Water stock
Consumable stores

309,780 267,649
15,302,205 13,080,132

Provision for impairment of inventory

15,611,985 13,347,781
(388,457) 32,785

15,223,528 13,380,566

10. Receivables from exchange transactions

Deposits (Eskom and Nedbank Building)
Sundry debtors
Other receivables

2,902,309 2,312,792
2,488,837 (269,956)

36,620,437 29,655,792

42,011,583 31,698,628

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	2017	2016
11. Receivables from non-exchange transactions		
Fines (Gross balance)	38,046,650	36,143,121
Less: Provision for impairment	(25,930,389)	(25,003,354)
	12,116,261	11,139,767
Reconcillation of Fines		
Opening Balance		
Add: Fines recognised	36,143,121	32,548,243
Less: Fines received	3,578,370	4,979,978
	(1,674,841)	(1,385,100)
	38,046,650	36,143,121
Reconcillation for Provision of Impairment		
Opening Balance		
Add: Contribution to provision for impairment	25,003,355	22,413,314
	927,035	2,590,041
	25,930,390	25,003,355
Fines revenue recognised in surplus comprises of:		
Traffic fines		
Other fines	3,578,481	4,979,978
	27,455	225,669
	3,605,936	5,205,647
Receivables from non-exchange transactions impaired		
Opening balance		
Add: Contribution for impairment	25,003,354	22,413,314
	927,035	2,590,041
Fines Revenue recognised in surplus comprises of:		
Traffic Fines		
Other Fines	3,578,481	4,979,978
	27,455	225,669
12. VAT receivable		
VAT	-	10,753,011

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	2017	2016
13. Consumer debtors		
Gross balances		
Rates	182,949,268	149,418,513
Electricity	119,583,512	117,388,236
Water	263,752,049	223,537,893
Sewerage	191,803,992	155,690,528
Refuse	86,291,130	73,924,235
Other	60,537,142	51,737,593
VAT and sundry services	213,543,913	219,716,753
	1,118,461,006	991,413,751
Less: Allowance for impairment		
Rates	(103,157,686)	(86,916,548)
Electricity	(8,602,458)	(6,988,995)
Water	(177,057,641)	(144,352,106)
Sewerage	(143,313,052)	(118,088,772)
Refuse	(63,912,098)	(54,424,091)
Other	(42,389,237)	(41,274,125)
VAT and sundry services	(127,402,310)	(144,272,255)
	(665,834,482)	(596,316,892)
Net balance		
Rates	79,791,581	62,501,965
Electricity	110,981,054	110,399,241
Water	86,694,407	79,185,787
Sewerage	48,490,941	37,601,757
Refuse	22,379,032	19,500,144
Other	18,147,905	10,463,468
VAT and sundry services	86,141,603	75,444,498
	452,626,523	395,096,860
Included in above is receivables from exchange transactions		
Electricity	119,583,512	117,388,236
Water	263,752,049	223,537,893
Sewerage	191,803,992	155,690,528
Refuse	86,291,130	73,924,235
Other	60,537,142	51,737,593
VAT and sundry services	213,543,913	219,716,753
	935,511,738	841,995,238
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	182,949,268	149,418,513
Total	1,118,461,006	991,413,751
Rates		
Current (0 -30 days)	24,881,019	31,231,980
31 - 60 days	5,043,718	4,841,698
61 - 90 days	4,932,140	4,615,932
91 - 120 days	4,633,373	4,288,075
121 - 365 days	5,269,751	4,186,559
> 365 days	138,189,267	100,254,271
	182,949,268	149,418,515

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	2017	2016
13. Consumer debtors (continued)		
Electricity, water, sewer and refuse		
Current (0 -30 days)		
31 - 60 days	172,101,127	156,676,327
61 - 90 days	14,142,687	14,388,857
91 - 120 days	12,851,535	13,230,783
121 - 365 days	12,380,581	12,250,962
> 365 days	12,522,286	12,826,469
	437,432,467	361,162,790
	661,430,683	570,536,188
VAT and Sundries		
Current (0 -30 days)		
31 - 60 days	9,929,244	13,827,740
61 - 90 days	2,517,040	2,274,806
91 - 120 days	2,144,678	2,105,335
121 - 365 days	2,016,279	2,148,004
> 365 days	1,902,742	1,995,371
	195,033,931	197,370,201
	213,543,914	219,721,457
Other (specify)		
Current (0 -30 days)		
31 - 60 days	4,868,664	2,155,662
61 - 90 days	1,626,329	913,157
91 - 120 days	1,130,233	1,047,288
121 - 365 days	1,049,936	843,951
> 365 days	1,014,509	807,686
	50,847,401	45,969,850
	60,537,072	51,737,594

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	2017	2016
13. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)		
31 - 60 days	159,068,003	139,552,815
61 - 90 days	19,771,685	20,042,758
91 - 120 days	18,242,338	18,908,214
121 - 365 days	17,420,913	17,575,868
> 365 days	17,569,143	17,943,298
	<u>725,290,540</u>	<u>648,187,431</u>
Less: Allowance for impairment	957,362,622	862,210,384
	<u>(614,950,856)</u>	<u>(556,849,830)</u>
	342,411,766	305,360,554
Industrial/ commercial		
Current (0 -30 days)		
31 - 60 days	47,355,956	51,406,697
61 - 90 days	2,206,806	2,103,745
91 - 120 days	1,842,568	1,915,600
121 - 365 days	1,890,021	1,816,704
> 365 days	1,666,461	1,738,510
	<u>58,090,606</u>	<u>46,078,624</u>
Less: Allowance for impairment	113,052,418	105,059,880
	<u>(50,883,624)</u>	<u>(39,467,061)</u>
	62,168,794	65,592,819
National and provincial government		
Current (0 -30 days)		
31 - 60 days	5,356,164	12,932,197
61 - 90 days	1,351,282	272,015
91 - 120 days	973,680	175,524
121 - 365 days	769,235	138,419
> 365 days	1,473,684	134,277
	<u>38,121,921</u>	<u>10,491,056</u>
	48,045,966	24,143,488
Total		
Current (0 -30 days)		
31 - 60 days	211,780,122	203,891,709
61 - 90 days	23,329,773	22,418,517
91 - 120 days	21,058,586	20,999,338
121 - 365 days	20,080,169	19,530,991
> 365 days	20,709,287	19,816,085
	<u>821,503,066</u>	<u>704,757,111</u>
Less: Allowance for impairment	1,118,461,003	991,413,751
	<u>(665,834,481)</u>	<u>(596,316,891)</u>
	452,626,522	395,096,860
Reconciliation of allowance for impairment		
Balance at beginning of the year	(596,316,891)	(400,958,325)
Contributions to allowance	(69,517,589)	(195,358,566)
	<u>(665,834,480)</u>	<u>(596,316,891)</u>

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14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	989,523	698,356
Bank balances	19,732,952	6,539,737
Short-term Investments	29,785,283	37,334,802
	50,507,758	44,572,895

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2017	June 30, 2016	June 30, 2015
FNB - 53140035974	13,082,957	4,338,099	232,756,333	19,732,952	6,539,737	234,443,814
FNB - 53140063149	6,649,995	2,201,638	1,687,481	-	-	-
Total	19,732,952	6,539,737	234,443,814	19,732,952	6,539,737	234,443,814

Call Investments

Standard Bank - 68450354/015	903,090	843,654
Standard Bank - 68450354/016	15,409,490	26,415,285
Standard Bank - 68450354/035	5,726,142	-
Standard Bank - 68450354/036	972,374	-
ABSA - 9288456248	6,366,719	9,367,139
ABSA - 9300506428	312,151	623,941
Glacier/Sanlam - 002246107(Money Market)	95,316	84,783
	29,785,282	37,334,802

Interest Income

Interest on Primary Bank Account	1,812,746	7,019,280
Interest on Investment Accounts	2,689,863	5,495,026
	4,502,609	12,514,306

15. Finance lease obligation

Minimum lease payments due

- within one year	168,853	65,694
- in second to fifth year inclusive	234,909	25,920
Present value of minimum lease payments	403,762	91,614

Present value of minimum lease payments due

- within one year	168,853	65,694
- in second to fifth year inclusive	234,909	25,920
	403,762	91,614

Non-current liabilities

Current liabilities	234,909	25,920
	168,853	65,694
	403,762	91,614

It is municipality policy to lease certain [property] motor vehicles and equipment under finance leases.

The average lease term was 2 years and the average effective borrowing rate was 26% (2016: 26%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

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16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Ingogo Fresh Produce	11,353	1,102,917
Newcastle library internet project	-	16,818
Municipal Systems Improvement Grant	-	677,387
Grant Skills Development	3,683,700	3,789,614
Cleanest town	823,975	823,975
Environmental Management Framework	1,352,871	502,871
Neighbourhood Development Partnership	709,291	-
Electrification Grant	650,918	-
JBC Housing Project	-	1,954,887
Osizweni Art Centre	36,920	36,920
Repair construction storm damaged houses	-	1,218,041
Osizweni library internet project	-	25,288
Housing Osizweni Sec E	4,266,813	1,093,885
Newcastle Airport	272,568	366,207
Capacity Building housing	6,693,870	12,684,970
Fort Amiel Museum	300,026	10,776
Madadeni Library Internet	-	23,811
Corridor Development	131,075	135,244
Carnegie Art Gallery	169,703	647,633
Provincialisation - Libraries	22,452,928	7,297,748
	41,556,011	32,408,992

17. Financial liabilities

At amortised cost

DBSA loans	190,373,404	210,421,508
ABSA Bank loans	288,844,611	277,456,144
	479,218,015	487,877,652
	479,218,015	487,877,652

Non-current liabilities

At amortised cost

	447,215,530	458,502,484
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Current liabilities

At amortised cost

	32,002,485	29,375,168
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18. Defined Benefit Plan

Reconciliation of defined benefit plan - 2017

	Opening Balance	Current cost	Benefits paid	Actuarial Gain	Interest cost	Total
Employee benefits	125,850,731	6,844,303	(5,775,189)	(3,559,453)	11,024,170	134,384,562

Reconciliation of defined benefit plan - 2016

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Employee benefits	111,904,366	5,682,949	(4,691,613)	3,472,031	9,482,998	125,850,731
Non-current liabilities					128,168,731	120,075,542
Current liabilities					6,215,831	5,775,189
					134,384,562	125,850,731
Healthy Care Benefits						
Balance at the beginning of the year					104,882,523	94,834,643
Current service cost					4,685,360	3,923,511
Contribution paid					(3,364,428)	(2,981,976)
Actuarial Loss					(4,103,683)	906,108
Interest					9,327,650	8,200,237
					111,427,422	104,882,523
Net expenses recognised in the Statement of Financial Performance						
Current service cost					4,685,360	3,923,511
Contribution paid					(3,364,428)	(2,981,976)
Actuarial Loss					(4,103,683)	906,108
Interest					9,327,650	8,200,237
					6,544,899	10,047,880
Long service bonus awards						
Balance at the beginning of the year					20,968,206	17,096,721
Current service cost					2,158,943	1,759,438
Contribution paid					(2,410,761)	(1,709,637)
Actuarial Loss					544,230	2,565,923
Interest					1,696,520	1,282,761
					22,957,138	20,995,206
Net expenses recognised in the Statements of Financial Performance						
Current service cost					2,158,943	1,759,438
Contribution paid					(2,410,761)	(1,709,637)
Actuarial Loss					544,230	2,565,923
Interest					1,696,520	1,282,761
					1,988,932	3,898,485

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18. Defined Benefit Plan (continued)

Assumptions

Health Care Benefits

The municipality provides certain post retirements medical benefits by funding the medical aid contribution of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition service), on retirement, is entitled to remain a continued member of such a medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations of the present value of the unfunded defined obligation was carried out as at 30 June 2017 by ARCH Actuarial Consulting, a member of Actuarial Society of South Africa. The present value of the defined obligation, and related current service cost and past service cost were measured using the projected unit credit method. No other post-retirement medical benefits are provided by the municipality.

Key financial assumptions used

Discount rate	9.60%
Health care cost inflation rate	7.90%
Net effective discount rate	1.58%
Unfunded Accrued Liability	R111 427 422

Current-service and Interest Costs

Year ended 30 June 2017

Interest Cost	R4 685 360
Actuarial (Gain)/Loss Recognized in Surplus/Deficit	R9 327 650 (R9 327 650)

Long service Bonus Awards

The long service bonus award is a function of accumulated leave days that is converted into cash in the year the employee attains the service eligible for an award at a rate of 1/251 of annual salary per day.

Key financial assumptions used

Discount rate	8.47%
General Salary Inflation	6.29%
Net effective discount rate	2.05%

The salaries used in the valuation include an assumed increase on 1 July 2017 of 7.36% as per the 2017/18 Newcastle Municipality approved budget.

Key Demographic Assumptions used

Average retirement age	63		
Mortality during employment	SA 85-90		
Withdrawal from service (sample annual rates)	Age	Rate - Female	Rate - Male
	20	24%	16%
	30	18%	12%
	40	10%	8%
	50	4%	4%
	55+	2%	2%

Unfunded Accrued Liability

Total value of liabilities	R22 957 138
Value of Assets	R0
Unfunded Accrued Liabilities	R22 957 138

Current service and Interest Costs

Current Cost	R2 158 943
Interest Cost	R1 696 520

Comparative of Vital Statistics

Number of eligible employees	1365
Average annual salary	R205 383
Salary-weighted average age	43.6
Salary-weighted average past service	11.4

Employee benefit cost provision: Assumption

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18. Defined Benefit Plan (continued)

Health Care Benefits

The municipality provides certain post retirements medical benefits by funding the medical aid contribution of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition service), on retirement, is entitled to remain a continued member of such a medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations of the present value of the unfunded defined obligation was carried out as at 30 June 2017 by ARCH Actuarial Consulting, a member of Actuarial Society of South Africa. The present value of the defined obligation, and related current service cost and past service cost were measured using the projected unit credit method. No other post-retirement medical benefits are provided by the municipality.

Key financial assumptions used

Discount rate	9.60%
Health care cost inflation rate	87.90%
Net effective discount rate	1.58%

Unfunded Accrued Liability

R111 427 422

Current-service and Interest Costs

Year ended 30 June 2017

Interest Cost	R4 685 360
Actuarial (Gain)/Loss Recognized in Surplus/Deficit	R9 327 650
	(R9 327 650)

Long service Bonus Awards

The long service bonus award is a function of accumulated leave days that is converted into cash in the year the employee attains the service eligible for an award at a rate of 1/250 of annual salary per day.

Key financial assumptions used

Discount rate	8.47%
General Salary Inflation	6.29%
Net effective discount rate	2.05%

The salaries used in the valuation include an assumed increase on 1 July 2017 of 7.36% as per the 2017/18 Newcastle Municipality approved budget.

Key Demographic Assumptions used

Average retirement age	63		
Mortality during employment	SA 85-90		
Withdrawal from service (sample annual rates)	Age	Rate - Female	Rate - Male
	20	24%	16%
	30	18%	12%
	40	10%	8%
	50	4%	4%
	55+	2%	2%
Unfunded Accrued Liability			
Total value of liabilities	R22 957 138		
Value of Assets	R0		
Unfunded Accrued Liabilities	R22 957 138		
Current service and Interest Costs			
Current Cost	R2 158 943		
Interest Cost	R1 696 520		
Comparative of Vital Statistics			
Number of eligible employees	1365		
Average annual salary	R205 383		
Salary-weighted average age	43.6		
Salary-weighted average past service	11.4		

19. Provision for rehabilitation costs of landfill site

The movement in the provision is reconciled as follows;

Balance at the beginning of year	26,814,753	27,200,543
Decrease/Increase in provision	1,562,349	(2,946,968)
Finance charges recognised	2,840,548	2,561,178
	31,217,650	26,814,753

Newcastle Municipality

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	2017	2016
20. Payables from exchange transactions		
Trade payables	236,861,867	189,697,556
Retentions	36,507,137	31,887,136
Output VAT on levies	93,635,343	81,626,270
Stale cheques written back	782,697	508,058
Leave pay provision	29,518,425	30,672,977
Bonus provision	9,057,778	12,381,915
Other payables	38,952,335	12,736,474
	445,315,582	359,510,386
21. Consumer deposits		
Electricity	14,038,053	12,501,178
Refuse	246,538	203,836
Housing rental	49,648	47,592
	14,334,239	12,752,606
22. Revenue		
Service charges	948,273,264	914,750,787
Rental of facilities and equipment	7,278,218	7,918,136
Miscellaneous other revenue	-	769,797
Other income	3,647,339	9,862,557
Sundry sales	1,303,488	1,397,723
Fee income	7,854,510	5,261,709
Interest received	14,835,339	19,673,326
Property rates	232,285,813	214,713,798
Government grants & subsidies	527,822,316	467,501,529
Fines, Penalties and Forfeits	3,605,936	5,205,647
Gain on Actuarial valuations	3,559,453	-
	1,750,465,676	1,647,055,009
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	948,273,264	914,750,787
Rental of facilities and equipment	7,278,218	7,918,136
Miscellaneous other revenue	-	769,797
Other income	3,647,339	9,862,557
Sundry sales	1,303,488	1,397,723
Fee income	7,854,510	5,261,709
Interest received - investment	14,835,339	19,673,326
	983,192,158	959,634,035
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	232,285,813	214,713,798
Transfer revenue		
Government grants & subsidies	527,822,316	467,501,529
Fines, Penalties and Forfeits	3,605,936	5,205,647
	763,714,065	687,420,974

Newcastle Municipality

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	2017	2016
23. Service charges		
Service connections		
Sale of electricity	4,127,084	5,413,316
Sale of water	671,545,629	633,318,173
Sewerage and sanitation charges	135,672,059	144,962,478
Refuse removal	80,092,822	76,453,626
	56,835,670	54,603,194
	948,273,264	914,750,787
24. Rental of facilities and equipment		
Premises		
Municipal housing		
Venue hire	6,207,360	7,074,517
Rental - HDF	887,000	664,808
	183,858	178,811
	7,278,218	7,918,136
25. Other revenue		
Other Income		
Sundry Revenue	3,647,339	9,862,557
Financial instruments - Fee income	1,303,488	1,397,723
	7,854,510	5,261,709
	12,805,337	16,521,989
26. Interest received		
Interest revenue		
Bank		
Arrear consumer accounts	4,502,609	12,514,308
Other Interest	10,329,850	7,155,898
	2,880	3,120
	14,835,339	19,673,326

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27. Property rates

Rates received

Residential		
Commercial	127,683,676	118,638,059
State	110,594,211	97,506,241
Specialised Non-market	2,614,459	2,669,473
Communal land	3,103,777	2,928,571
Vacant land	423,460	192,317
Agriculture	16,512,960	15,351,117
Less: Income forgone	2,612,123	3,075,041
	(31,258,853)	(25,647,020)
	232,285,813	214,713,799

Valuations

Residential		
Commercial	13,234,336,000	13,057,928,500
State	4,202,753,000	4,064,536,500
Vacant	2,113,204,000	2,114,034,000
Specialised non-market	490,221,200	456,064,500
Agriculture	1,494,199,900	1,414,823,900
Communal land	1,298,370,000	1,359,884,000
Un-ratable properties	222,804,000	89,180,000
	627,139,900	594,917,700
	23,683,028,000	23,151,369,100

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

28. Government grants and subsidies

Operating grants

Equitable share		
Newcastle library internet project	306,952,000	298,215,000
Finance management grant	195,818	158,715
Skills development grant	1,625,000	1,600,000
Expanded Public Works programme incentive	105,300	665,292
Neighbourhood development partnership	3,173,000	3,286,030
Electrification grant	27,613,709	10,020,935
Water services operating & masification subsidies	7,349,082	7,999,817
Municipal infrastructure grant	-	5,558,816
Municipal systems improvement grant	109,214,000	110,705,000
Ingogo Fresh Produce	-	251,154
Construct/Upgrade sport/Recreation	1,091,564	2,897,083
Madadeni library internet project	-	636,487
Municipal Water Infrastructure Grant	202,811	285,694
Osizweni library internet project	40,613,000	12,245,167
Provincialisation- All Libraries	204,288	191,039
Capacity building Housing	5,964,820	3,448,132
Other Government Grants and Subsidies	5,991,100	1,118,291
Kwamathukuza Housing Project	93,640	4,225,565
Corridor Development	-	3,993,312
Carnegie art gallery	16,910,506	-
	522,680	-
	527,822,318	467,501,529

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Newcastle Municipality

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	2017	2016
28. Government grants and subsidies (continued)		
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Current year receipts	306,952,000	298,215,000
Municipal Infrastructure Grant		
Current-year receipts	109,214,000	110,705,000
Conditions met - transferred to revenue	(109,214,000)	(110,705,000)
	-	-
Municipal Systems Improvement Grant		
Balance unspent at beginning of year	677,387	-
Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(252,613)
Other (Retained by NT)	(677,387)	-
	-	677,387
Financial Management Grant		
Current-year receipts	1,625,000	1,600,000
Conditions met - transferred to revenue	(1,625,000)	(1,600,000)
	-	-
Skills Development Grant		
Balance unspent at beginning of year	3,789,614	3,083,324
Current-year receipts	-	1,371,582
Conditions met - transferred to revenue	(105,300)	(665,292)
Other	(613)	-
	3,683,701	3,789,614
Expanded Works Programme Incentive		
Balance unspent at beginning of year	-	344,030
Current-year receipts	3,173,000	3,286,000
Conditions met - transferred to revenue	(3,173,000)	(3,286,030)
Other	-	(344,000)
	-	-
Environmental Management Framework		
Balance unspent at beginning of year	502,871	502,871
Neighbourhood Development Partnership		
Balance unspent at beginning of year	-	15,020,935
Current-year receipts	28,323,000	10,000,000
Conditions met - transferred to revenue	(27,613,709)	(10,020,935)
Other	-	(15,000,000)
	709,291	-

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	2017	2016
28. Government grants and subsidies (continued)		
Electrification Grant		
Balance unspent at beginning of year	-	21,817
Current-year receipts	8,000,000	8,000,000
Conditions met - transferred to revenue	(7,349,082)	(7,999,817)
Other	-	(22,000)
	650,918	-
Water Services Operating & Masification Subsidies		
Current-year receipts	-	3,000,000
Conditions met - transferred to revenue	-	(5,558,816)
Other	-	2,558,816
	-	-
KwaMatukuza Housing Project		
Balance unspent at beginning of year	-	14,065,853
Conditions met - transferred to revenue	-	(3,993,312)
Other	-	(10,072,541)
	-	-
I.T - Tirelo Bosha Project		
Current-year receipts	850,000	-
	850,000	-
JBC Housing Project		
Balance unspent at beginning of year	1,954,887	1,954,887
Other	(1,954,887)	-
	-	1,954,887
Repair Construction Storm damage HS		
Balance unspent at beginning of year	1,218,040	1,218,040
Other	(1,218,040)	-
	-	1,218,040
Construct/Upgrade sport/Recreation		
Balance unspent at beginning of year	-	636,486
Conditions met - transferred to revenue	-	(636,486)
	-	-
Madadeni library internet project		
Balance unspent at beginning of year	23,811	139,505
Current-year receipts	179,000	170,000
Conditions met - transferred to revenue	(202,811)	(285,694)
	-	23,811

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	2017	2016
28. Government grants and subsidies (continued)		
Municipal Water Infrastructure Grant		
Balance unspent at beginning of year	-	5,678,985
Current-year receipts	40,613,000	14,825,000
Conditions met - transferred to revenue	(40,613,000)	(12,245,167)
Other	-	(8,258,818)
	<u>-</u>	<u>-</u>
Osizweni Library internet project		
Balance unspent at beginning of year	25,288	46,327
Current-year receipts	179,000	170,000
Conditions met - transferred to revenue	(204,288)	(191,039)
	<u>-</u>	<u>25,288</u>
Provincialisation- All Libraries		
Balance unspent at beginning of year	7,297,749	5,118,881
Current-year receipts	21,120,000	5,627,000
Conditions met - transferred to revenue	(5,964,820)	(3,448,132)
	<u>22,452,929</u>	<u>7,297,749</u>
Capacity Building housing		
Balance unspent at beginning of year	12,684,970	9,186,381
Current-year receipts	-	5,690,560
Conditions met - transferred to revenue	(5,991,100)	(1,118,291)
Other	-	(1,073,680)
	<u>6,693,870</u>	<u>12,684,970</u>
Osizweni arts centre		
Balance unspent at beginning of year	36,920	36,920

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	2017	2016
28. Government grants and subsidies (continued)		
Corridor development		
Balance unspent at beginning of year	135,244	135,244
Current-year receipts	16,906,337	-
Conditions met - transferred to revenue	(16,910,506)	-
	131,075	135,244
Cleanest town		
Balance unspent at beginning of year	823,975	823,975
Newcastle Library Internet Project		
Balance unspent at beginning of year	16,818	5,533
Current-year receipts	179,000	170,000
Conditions met - transferred to revenue	(195,818)	(158,715)
	-	16,818
Ingogo Fresh Produce		
Balance unspent at beginning of year	1,102,917	4,000,000
Conditions met - transferred to revenue	(1,091,564)	(2,897,083)
	11,353	1,102,917
Madadeni/Osizweni upgrading of houses		
Balance unspent at beginning of year	-	2,080,114
Conditions met - transferred to revenue	-	(411,112)
Other	-	(1,669,002)
	-	-
Carnegie Art Gallery		
Balance unspent at beginning of year	647,634	373,090
Current-year receipts	44,750	158,500
Conditions met - transferred to revenue	(522,680)	(60,456)
Other	-	176,500
	169,704	647,634
Fort Amiel Museum		
Balance unspent at beginning of year	10,776	435,000
Current-year receipts	289,250	158,500
Conditions met - transferred to revenue	-	(406,224)
Other	-	(176,500)
	300,026	10,776

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28. Government grants and subsidies (continued)

Other grants (Housing grants)

Balance unspent at beginning of year	1,093,885	3,671,526
Conditions met - transferred to revenue	-	(2,577,641)
Other	3,172,928	-
	<u>4,266,813</u>	<u>1,093,885</u>

All Housing grants were consolidated.

Newcastle Airport

Balance unspent at beginning of year	366,207	1,031,339
Current-year receipts	-	105,000
Conditions met - transferred to revenue	(93,640)	(770,132)
	<u>272,567</u>	<u>366,207</u>

29. Employee related costs

Basic	292,340,391	286,160,039
Medical aid - company contributions	17,644,241	16,826,829
UIF	2,529,587	2,478,072
WCA	5,980,951	378,496
SDL	4,046,125	3,660,181
Leave bonus paid	21,161,990	26,355,254
Defined contribution plans	52,286,382	50,453,362
Travel, motor car, accommodation, subsistence and other allowances	3,966,164	3,698,477
Overtime payments	48,301,248	46,774,344
Long-service awards	2,379,843	1,942,439
Transport allowance	21,947,465	20,952,676
Housing benefits and allowances	8,535,238	8,830,944
Group insurance	4,248,411	4,601,330
Bargaining council	133,976	115,460
Night work allowance	1,584,101	1,680,529
Leave pay provision	2,733,545	14,692,586
	<u>489,819,658</u>	<u>489,601,018</u>

Remuneration of the Municipal Manager

Annual Remuneration	1,384,831	230,805
Car Allowance	132,284	-
Contributions to UIF, Medical and Pension Funds	223,032	41,867
	<u>1,740,147</u>	<u>272,672</u>

Remuneration of the Chief Finance Officer

The Chief Financial Officer position is vacant. Mr SN Nkosi is acting on the position and acting allowance is paid.

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	2017	2016
29. Employee related costs (continued)		
Remuneration of Executive Directors		
Annual Remuneration		
Car Allowance	3,835,156	5,704,916
Performance Bonuses	475,875	1,023,126
Contributions to UIF, Medical and Pension Funds	-	256,530
Housing Allowances	162,682	192,893
Other	22,853	-
Leave Paid and other Benefits	355,090	-
	106,222	-
	4,957,878	7,177,465
Chief of Operations		
Annual Remuneration		
Travel, Car, Accommodation, Subsistence and other allowances	-	1,290,127
Contributions to UIF, Medical and Pension	-	263,320
	-	26,312
	-	1,579,759
Community Services		
Annual Remuneration		
Travel Accommodation, Subsistence and other allowances	764,021	918,439
Performance bonuses	269,127	255,022
Contribution to UIF, Medical and Pension fund	-	146,626
Leave paid	19,488	23,386
	109,582	-
	1,162,218	1,343,473
Development and Planning Services		
Annual Remuneration		
Travel Accommodation, Subsistence and other allowances	1,038,970	1,042,753
Contribution to UIF, Medical and Pension fund	96,564	158,685
	82,313	40,356
	1,217,847	1,241,794
Electricity Services		
Annual Remuneration		
Travel Accommodation, Subsistence and other allowances	1,038,763	1,432,790
Performance bonuses	355,074	301,859
	-	65,409
	1,393,837	1,800,058
Internal Audit		
Annual Remuneration		
Travel Accommodation, Subsistence and other allowances	993,401	1,020,806
Performance bonuses	87,736	44,240
Contribution to UIF, Medical and Pension Fund	-	44,496
	102,839	102,839
	1,183,976	1,212,381

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30. Remuneration of councillors

	2017	2016
Mayor		
Deputy Mayor	838,890	847,480
Executive Committee Members	676,796	713,247
Speaker	3,580,718	4,556,532
Councillors	668,449	692,593
	14,624,203	11,643,256
	20,389,056	18,453,108
Mayor		
Annual Remuneration		
Car Allowances	576,937	508,069
Cellphone Allowance	208,348	196,765
Contribution to UIF, Medical aid and Pension	23,322	42,840
Housing Allowance	26,864	75,806
	3,419	24,000
	838,890	847,480
Deputy Mayor		
Annual Remuneration		
Car Allowances	409,298	352,937
Cellphone Allowance	175,220	157,412
Contribution to UIF, Medical aid and Pension	24,751	30,048
Housing Allowance	64,107	54,546
Reimbursement	3,419	24,000
	-	94,304
	676,795	713,247
Speaker		
Annual Remuneration		
Car Allowances	412,385	379,066
Cellphone Allowance	162,368	157,412
Contribution to UIF, Medical aid and Pension	23,322	-
Housing Allowance	66,956	58,465
Reimbursement	3,419	24,000
	-	73,650
	668,450	692,593

Councillors remunerations were not paid according to Determination of the Upper Limits for the Salaries, Allowances and Benefits of Municipal Councillors for the 2016/17 Financial Year. In December 2016 councillors were overpaid and the overpayments made have not yet been recovered.

In-kind benefits

The Mayor, Deputy Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has a use of a Council owned vehicle for official duties.

The Mayor, Deputy Mayor and Speaker each have the use of separate Council owned vehicles for official duties.

The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.

31. Depreciation and amortisation

Property, plant and equipment

472,119,084 456,740,714

32. Impairment of assets

Impairments
Fines

1,348,277 2,590,041

Newcastle Municipality

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	2017	2016
33. Finance costs		
Non-current borrowings	50,647,784	53,598,282
Provisions and current borrowings	14,051,002	12,124,257
Other interest paid	1,084,764	418,515
	65,783,550	66,141,054
34. Debt impairment		
Debt impairment	69,517,589	195,358,566
Indigents written off	30,786,341	-
Bad debts written off	-	347,423,995
	100,303,930	542,782,561
35. Bulk purchases		
Electricity	493,594,236	449,612,117
Water	65,351,503	63,918,344
	558,945,739	513,530,461
36. Contracted services		
Security services	21,075,726	20,580,869
Consultants fees	40,170,019	66,052,678
	61,245,745	86,633,547

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	2017	2016
37. General expenses		
Advertising		
Assessment rates & municipal charges	947,236	1,730,684
Auditors remuneration	14,083	27,673
Bank charges	3,623,266	3,522,428
Legal fees	3,416,814	3,118,048
Entertainment	2,063,509	4,337,720
Hire	272,533	535,952
Insurance	27,100,814	33,587,002
Community development and training	3,265,313	3,971,282
IT expenses	2,784,880	6,109,123
Magazines, books and periodicals	4,598,379	5,637,641
Medical expenses	362,728	404,561
Motor vehicle expenses	20,779	95,001
Expenditure on Grants	17,610,572	15,666,867
Subsistence and Travelling	6,068,573	-
Petrol, Oil and Grease	1,096,956	4,821,650
Postage and courier	890,263	1,119,449
Printing and stationery	2,619,415	2,660,897
Promotions	3,415,936	3,092,551
Protective clothing	130,395	1,958,759
Royalties and license fees	3,777,240	4,760,559
Software expenses	168,842	4,524
Membership fees	40,040	-
Telephone and fax	5,566,083	5,518,248
Training	9,146,593	8,006,464
Tools	5,032,796	6,262,859
Lease Rentals on Operating lease	175,423	151,458
Other expenses	4,431,876	14,053,831
Administration expenses	65,511,932	70,290,031
Contribution to post retirement benefits	36,839,538	33,313,741
Material	6,844,303	9,154,980
Signage	1,832,459	1,888,961
Special programmes	422,624	491,667
Chemicals	2,090,492	4,209,848
Unrecoverable VAT Refunds	302,956	550,360
Loss due theft	-	6,562,862
	-	4,867
	222,485,641	257,622,548
38. Auditors' remuneration		
Fees	3,623,266	3,522,428
39. Operating lease		
Operating lease Lease expenses(Lessee)		
Due within a year	577,358	975,841
Due in second to fifth year	138,372	686,811
	715,730	1,662,652

Operating lease payments comprise lease rentals payable by the municipality for the office equipments. Leases are negotiated for 3 years for the rental of office equipment and photocopiers with no contingent rentals payable.

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40. Cash generated from operations		
Deficit		
Adjustments for:	(279,315,869)	(891,363,525)
Depreciation and amortisation		
Fair value adjustment and Share of deficit	472,119,084	456,740,714
Gain on Actuarial Valuation	(57,115,331)	(29,936,451)
Impairment of assets	(3,559,453)	-
Debt impairment	1,348,277	2,590,041
Movements in provisions	100,303,930	542,782,561
Other non-cash items	8,533,831	13,560,575
Other non-cash items	-	10,039,760
Changes in working capital:	-	16,953,066
Inventories		
Receivables from exchange transactions	(1,842,962)	(2,484,330)
Consumer debtors	(10,312,955)	(8,655,899)
Other receivables from non-exchange transactions	(105,173,240)	(158,551,164)
Prepayments	(976,605)	(1,004,737)
Other financial assets	-	3,909,992
Payables from exchange transactions	2,131	(1,914)
VAT	85,805,196	88,085,668
Unspent conditional grants and receipts	13,143,536	16,998,275
Consumer deposits	9,147,019	(37,200,612)
	1,581,633	1,704,522
	233,688,222	24,166,542
41. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure assets	115,146,879	139,070,613
• Community assets	70,380	16,642,565
• Land and buildings	23,446,846	1,419,699
• Other assets	29,454,030	5,930,132
	168,118,135	163,063,009
Not yet contracted for and authorised by accounting officer		
• Infrastructure assets	16,201,537	10,241,601
• Community assets	-	1,200,000
• Land and buildings	3,432,661	1,000,000
• Other assets	1,628,646	5,666,679
	21,262,844	18,108,280
Total capital commitments		
Already contracted for but not provided for	168,118,135	163,063,009
Not yet contracted for and authorised by accounting officer	21,262,844	18,108,280
	189,380,979	181,171,289
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	658,188	1,112,459
- in second to fifth year inclusive	157,744	782,965
	815,932	1,895,424

Operating lease payments represent rentals payable by the municipality for certain of its office equipments. Leases are negotiated for an average term of 3 years on fixed rentals and no Contingent rentals payables.

Newcastle Municipality

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42. Contingencies

Plaintiff: Evnic Data CC

There is litigation process against the municipality relating to the dispute with Evnic Data CC, who is seeking damages of R23 million for the loss of profit. The allegations are that there was an irregular awarding of tender to another bidder due to unfair evaluation and awarding. Parties to convene pretrial.

Plaintiff: Singatha Africa Joint Venture

Singatha Africa Joint Venture is seeking damages of R2 333 755 for loss of profit relating to a dispute of breach of contract. It alleges that it was engaged as a Project Manager for housing project but the contract was cancelled. Awaiting trial date.

Plaintiff: ADZ Construction CC

There is a litigation process against the municipality relating to a dispute with ADZ Construction CC, who is seeking damages of R 1 245 491 for breach of contract. It alleges that the contract was unlawfully terminated. Litigation to proceed.

Plaintiff: Clover SA (Proprietary) Limited

Clover SA (Propriety) Limited is suing the municipality for damages of R39 100 to its vehicle caused by the underground water leaks on the road surface. The matter is still under investigations.

Plaintiff: Pragashini Dhewlall

There is a litigation process against the municipality relating to the dispute with Pragashini Dhewlall, who is claiming damages for medical expenses of R400 000. He sustained injury after tripping on a metal pipes placed by municipal employees.

Plaintiff: Telkom SA SOC LTD

There is a litigation process against the municipality relating to a dispute with Telkom SA, who has sent a letter of demand for the damage to telecommunication infrastructure of Telkom at vicinity of Ayliff Street between Patterson and York Street. Should the Telkom be successful the municipality will be liable to pay damages of R165 423.88 and legal fees.

Plaintiff: Bigen Services Africa (Pty) LTD

Bigen Services Africa (Pty) LTD is the former service provider in the Municipality. Bigen Services Africa (Pty) LTD had objected to the Municipality, this matter follows an unsuccessful bid application for debt management. Estimated legal cost are R1 500 000

Plaintiff: Matilda Plumbing & Projects CC

There is a litigation process against the municipality relating to a dispute with Matilda Plumbing and Projects CC. The estimated costs of the legal cost is R200 000

Plaintiff: SJ Zulu

There is a litigation process against the municipality relating to a dispute with SJ Zulu. SJ Zulu has lodged an application to cease excavation and construction of sewerage pumpstation project initiated by the municipality. The case is in the High court and the estimated cost is R20million and R75 000 of legal costs

Plaintiff: Rusha Peterson

There is a litigation process against the municipality relating to a dispute with Rusha Peterson where has allegations that the municipality was negligent, leaving the storm water drainage pipes open in the public palce that was accessible to children. Her child was injured and is claiming damages of R400 000

Plaintiff: Chapps Construction

There is a litigation against the municipality where as Chapps Construction has an arbitration against the municipaplite that relates to the chalages on additional work rended by Chapps without proper manadate on extension of Allen street project. Estimated legal fees of R150 000

Plaintiff: Sibiya (Ingogo Fresh Produced)

There is a litigation process against the municipality relating to a dispute with Mr Sibiya whereas there was an agreement between the municipality and Mr Sibiya to pay the rental of R1500 per month on the portion of land belonging to Mr Sibiya. Mr Sibiya now demands R30 000 instead of R1500. Estimated legal costs are R150 000

Plaintiff: VP Chetty/Amandla Construction

There is a litigation process against the municipality relating to a dispute with Amandla Construction. Allegations of breach of Contract. Amount sued is R238 609 and estimated legal costs are R50 000.

Plaintiff: Minister of Water Affairs

The Minister of Water Affairs is suing the municipality for services of water renderedfor the periode April 2002 to 31 August 2016. An arrangement has been made to pay this in instalments of 3 years. Amount sued for is R35 906 412.22 and estimated legal costs are R50 000

Insurance Claim from Third Parties Public Liability

Sandile Mkhize for Motorvehicle claim. Sued amount R96 522.77 and estimated legal cost R25 000

Typhoon Fibers for Property damage due to employee negligence.Sued amont is R438 266 and legal cost of R50 000

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42. Contingencies (continued)

Webster Nkosi for Motorvehicle claim. Sued amount R41 861.70 and estimated legal costs are R15 000.
Alistair Kevin vn Wyk for Personal injuries. Sued amount R 6 000 000 and estimated legal costs R150 000
Diaan and AJ Von Broembsen for property damage due to rain storm. Sued amount is R220 580 and estimated legal fees is R30 000
Olivia Sizani Nzimande for Motorvehicle claim. Sued amount R109 550 and estimated legal costs R30 000
Vusi Mahlangu for Vehicle damage claim. Sued amount R140 835 and legal costs R30 000
Vishal Heeralal for Personal injuries claim. Sued amount R1 050 000 and estimated legal costs R150 000
Nicole Adele Pillay for Motorvehicle damage claim. Sued amount is R101 327 and legal costs of R30 000
Chemile Dlabehlezi Dladla for Personal injuries. Sued amount is R6 000 000 and legal costs of R250 000.

Labour reviews and Bargaining Council

Miss Nxumalo has sued the municipality for R89 625 and R150 000 legal cost. She alleged that she was unfairly dismissed. Labour court is reviewing the application.

Mr. Ngwenya is suing the municipality for an unfair labour practice. Labour court review is pending. Estimated legal costs are R150 000

Mr. Mofokeng has sued the municipality R110 000 for an unfair dismissal. Awaiting ruling on leave to appeal. Estimated legal costs are R50 000

BM Mhlanga is suing the municipality for unfair dismissal. The estimated claim is R946 213 which is the total cost to company.

NE Mkhwanazi is suing the municipality for unfair dismissal. The estimated cost that the municipality might pay will be R296 433 which is the annual salary.

MP Sithole is suing the municipality for unfair dismissal. The estimated cost that the municipality might have to pay is R1 245 250.75 which is the total cost to company.

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	2017	2016
43. Related parties		
Relationships		
Associates		
	Refer to note 7	
Related party balances		
Investment in associates		
Uthukela Water (Pty) LTD		
	(34,573,222)	(38,810,359)
Bulk water purchases		
Uthukela Water (Pty) LTD		
	64,224,044	62,163,958
Related party transactions		

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43. Related parties (continued)

Remuneration of management

Councillors

2017

Name	Annual remuneration	Car allowances	Cellphone allowances	Contributions to Medical and Pension fund	Housing allowances	Total
Executive Committee members	3,474,115	1,322,033	425,140	435,887	107,677	5,764,854
Other Councillors	8,710,577	3,270,952	1,244,662	1,148,161	249,850	14,624,202
	12,184,692	4,592,985	1,669,802	1,584,048	357,527	20,389,056

44. Change in estimate

Property, plant and equipment

The review of useful life of stormwater was performed in this financial year. These stormwater assets had zero balance of useful life but were still in good condition. The effect of this revision has decreased the accumulated depreciation charges by R39 472 125.04 in prior year. The depreciation for this assets in 2016/17 financial year is R4 514 744.

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44. Change in estimate (continued)

Provision of Landfill site

Pro vision for rehabilitation costs of landfill site is raised for rehabilitation of the disposal site to its original state once the land fill has reached the end of its usefull life. The provision cost is calculated as the presnt value of the future value of the future obligation, discounted at 10.010% over a years. The dicounting rate used to dicount the future value of the rate of long term loan estimate is from ABSA

For this financial year the provision for landfill site is estimated at R31 217 649.03 with one year remaining. The valuation was done by One Pangaea

The effect of discounting of the future value of the provision for rehabilitation of landfill site over the remaining usefull site is estimated at R1 176 558.56

The movement in the non-current is reconsilled as follows:

Balance at the beginning of the year

Movement in provision

Finance Charges

26,814,753	27,200,543
1,562,349	(2,946,968)
2,840,548	2,561,178
<u>31,217,650</u>	<u>26,814,753</u>

45. Prior period errors

1. Property, plant and equipment

During the past financial year, the municipality performed the revaluation of stormwater, high mast lights and traffic equipment assets which was not included in the asset register. The effect of the revaluation of these assets is as follows;

Cost	R69 989 929.55
Accumulated surplus	(R24 378 489.03)
Accumulated depreciation	(R 4 075 288.12)
Other assets Adjustment	(R 1 813 728.49)
Review of useful lives	R39 472 125.04
Accumulated Depreciation	(R 808 961.48)
Recognising of Intangible assets	R2 314 146.26
Prior year Correction of error	R80 699 733.73

2. Investment in associates

This adjustment is as the results of Uthukela Waters final 201516 Annual Financial Statements is different to the AFS that were used by Newcastle Municipality to calculate the investment in Uthukela Water, the change is as follows,

Accumulated surplus	R3 938 007.16
Investment in Associates	(R3 938 007.16)

3. Nedbank deposit

The adjustment is as the results of recognising other deposits that were paid to Scarlet that were recognised previously as rental of the building. The adjustment is as follows;

Nedbank Deposit	R375 175.44
Accumulated surplus	(R375 175.44)

46. Comparative figures

Certain comparative figures have been reclassified due to remapping.

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47. Financial Instruments Disclosure

2017

Financial assets

Cash and cash equivalent
Receivable from exchange transaction
Other assets

At amortised cost	At fair value	Total
-	50,507,758	50,507,758
-	41,995,521	41,995,521
-	5,791	5,791
-	<u>92,509,070</u>	<u>92,509,070</u>

Financial liabilities

Financial liabilities
Payables from exchange transaction
Consumer deposit

At amortised costs	At fair value	Total
479,218,015	-	479,218,015
-	445,315,582	445,315,582
-	14,334,239	14,334,239
<u>479,218,015</u>	<u>459,649,821</u>	<u>938,867,836</u>

2016

Financial Assets

Cash and cash equivalent
Receivables from exchange transaction
Receivables from non-exchange transactions
Other assets

At amortised cost	At fair value	Total
-	44,572,895	44,572,895
-	31,484,163	31,484,163
-	11,139,767	11,139,767
-	7,922	7,922
-	<u>87,204,747</u>	<u>87,204,747</u>

Financial Liability

Payables from exchange transactions
Financial liabilities
Consumer deposits

At amortised cost	At fair value	Total
-	359,375,783	359,375,783
487,877,652	-	487,877,652
-	12,752,606	12,752,606
<u>487,877,652</u>	<u>372,128,389</u>	<u>860,006,041</u>

48. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board.

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49. Going concern

2017

2016

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business over the next 12 months.

We further draw attention to the fact that at the end of reporting period, the municipality recorded operating deficit of R281.7 million and had cash and cash equivalents of R50million which is not adequate to cover the current liabilities of the municipality. Although the current assets exceed the current liabilities, however the collection rate poses a risk in the confidence that all outstanding debtors will be collected. Over the next twelve months, the municipality is committed to implement cost containment measures and to ensure that expenditure is kept within the funded and approved budget. The municipality will further be embarking in the awareness and water restrictors campaigns in order to maximise the collection of its revenue.

50. Events after the reporting date

There were no events to be disclose after the reporting date.

51. Unauthorised expenditure

Budgeted expenditure

Actual expenditure

1,972,828,585	1,894,525,324
(2,086,896,876)	(2,568,354,986)
<u>(114,068,291)</u>	<u>(673,829,662)</u>

The municipality incurred unauthorised expenditure in 2016/17 financial year. This is mainly due to the non cash item of depreciation. There was a shortfall in the budget for depreciation.

52. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure

1,082,952	418,515
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Fruitless and wasteful expenditure for 2016/17 is as the results of interest charged on late payment made to Eskom bulk purchases.

53. Irregular expenditure

Opening balance

Add: Irregular Expenditure - current year

139,656,574	111,926,290
14,639,801	27,730,284
<u>154,296,375</u>	<u>139,656,574</u>

Analysis of expenditure awaiting write-off per age classification

Current year

Prior years

14,639,801	27,730,284
139,656,574	111,926,290
<u>154,296,375</u>	<u>139,656,574</u>

Payments made on expired contracts

Manatty Trading
M Charlie Enterprise
Central Bridge
Simamane Construction
Bonakude Consulting

9,187
59,532
83,107
237,856
2,631,920
<u>3,021,602</u>

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2017

2016

Mrs ZWT Zwane

In service of the institution
 Dlongwane General Trading
 RVT Trading

2,333,897

Mr R Singh

19,300

Ms CL Captain

42,278

Ms SS Maling

147,250

2,542,725

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	2017	2016
53. Irregular expenditure (continued)		
Payments made to contracts where SCM procedures were not followed		
NICS - Provision of Debt Management	2,132,992	
Training for municipal employees - Drivers	123,084	
Kenyon and FBL - VIP Protection for Councillors	4,048,139	
Inside Data - Printing Statements	58,046	
KEV Metering - Meter Reading	1,542,670	
Ojakalasi Security Services - Security	91,200	
MI7 Security Intelligence - Security	3,121,092	
Siyanakekela-We care - Programme director	15,000	
	<u>11,132,223</u>	
Contracts awarded to employees in service of the state		
W Klynsmith - Hurricane Airconditioner and Refrigerator	29,600	
Overpayment made to Councillors		
	<u>456,376</u>	<u>-</u>
54. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	-	(3,909,992)
Current year subscription / fee	4,651,860	4,965,688
Amount paid - current year	(4,651,860)	(1,055,696)
	<u>-</u>	<u>-</u>
Material losses		
Amount paid - current year		
	<u>-</u>	<u>-</u>
Audit fees		
Opening balance	-	4,867
Current year subscription / fee	170,165	-
Amount paid - current year	3,733,544	3,522,428
	(3,903,709)	(3,352,264)
	<u>-</u>	<u>170,164</u>
PAYE and UIF		
Current year subscription / fee	72,134,883	68,301,283
Amount paid - current year	(72,134,883)	(68,301,283)
	<u>-</u>	<u>-</u>
Pension and Medical Aid Deductions		
Current year subscription / fee	109,856,063	101,356,904
Amount paid - current year	(109,856,063)	(101,356,904)
	<u>-</u>	<u>-</u>

Newcastle Municipality

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54. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable
VAT payable

	2017	2016
	-	10,753,011
	2,390,525	-
	<u>2,390,525</u>	<u>10,753,011</u>

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2017:

June 30, 2017

	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr MV Buhali	321	12,182	12,503
Cllr AA Coka	14	12,823	12,837
Cllr NY Mahlubi	2,330	-	2,330
Cllr NY Mbatha	2,986	-	2,986
Cllr MS & MG Mlangeni	763	8,018	8,781
Cllr MS Mlangeni	2,016	13,964	15,980
Cllr VP Mzima	710	534	1,244
Cllr EM Nkosi	1,546	-	1,546
Cllr MP Sibilwane	575	-	575
Cllr GMB Thwala	1,390	-	1,390
Cllr SJ Zulu	-	114	114
Cllr SJ Zulu	-	193	193
Cllr TM&NM Zulu	-	-	1,902
	<u>1,902</u>	<u>-</u>	<u>1,902</u>
	<u>14,553</u>	<u>47,828</u>	<u>62,381</u>

June 30, 2016

	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr MP NJ Ngobese	1,657	50,556	52,213
Cllr MV Buhali	300	22,731	23,031
Cllr MS MG Mlangeni	713	7,057	7,770
Cllr Y Meiring	2,763	4,368	7,131
Cllr EM PM Zungu	7,012	-	7,012
Cllr ME Zwane	3,009	3,918	6,927
Cllr MM Bhakiswayo	2,420	1,394	3,814
Cllr NT Ntshangase	2,583	-	2,583
Cllr DO Shabalala	2,449	-	2,449
Cllr TM NM Zulu	1,978	-	1,978
Cllr SB LB Lukhele	1,849	-	1,849
Cllr CN LA Mkhize	1,141	-	1,141
Cllr ME Zwane	1,016	-	1,016
Cllr SSE Buthelezi	929	-	929
Cllr MP Sibilwane	921	-	921
Cllr NP Kunene	725	-	725
Cllr ZJ Mbatha	691	-	691
Cllr RN Mdluli	436	-	436
	<u>32,592</u>	<u>90,024</u>	<u>122,616</u>

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55. Deviation from supply chain management regulations

2017

2016

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviations
Section 16
Section 17
Section 36

61,776	63,773
112,396	220,280
4,210,272	9,358,743
4,384,444	9,642,796

56. Water distribution losses

Input Volume (KI)	28 284 229	32 067 906
Water losses (KI)	12 499 598	15 514 225
Water losses (%)	44.2%	48.4%
Bulk Tariff (R/KL)	2.56	2.56
Water Losses (R)	31 998 970	39 716 416

Water distribution losses comprises of the following:

Physical / Real losses

Leaking from transmission and distribution mains (leaks and burst pipes) as well as leaking on services connections up to the customer's meter were noted as physical losses

Commercial / apparent losses

Unauthorised consumptions consisting of illegal connections, meter bypass and illegal uses of fire hydrant were noted as apparent losses, furthermore customer meter inaccuracy due to old meter and intermittent water supply were also reason for the losses. Human error from manual reading and capturing of data resulted in meter reading errors, data handling and accounting errors

57. Electricity distribution losses

Purchases (KWH)	699 795 153	686 078 122
Less: Sales	(675 207 653)	(632 602 412)
Loss of units	24 587 499	53 475 709
Loss of units (%)	3.51%	7.79%
Estimated cost per unit - Cents	R0.59	R0.54
Estimated cost of loss (R)	14 506 624	29 240 006

Electricity distribution losses comprised of the following:

Administrative losses

Administrative losses refers to the difference between the income generated from electricity delivered to consumers and the actual amount of revenue that is recovered. Administrative losses are minimal as the municipality ensures that the cut-offs are effected on all unpaid accounts.

Technical Losses

Technical losses within the municipality are made up of standard line losses, unmetered own consumption, free basic electricity, street lightning and traffic lights. Standard line losses account for approximately 2% of the total energy delivered to the municipality. Street lighting contribute approximately 3600KWh per annum which equates to approximately 8% (3 600 000KWh) of electricity losses.

Non-technical losses

Non-technical losses refers to unrecorded electricity delivery. Illegal connections, faulty and incorrect calibration of meters contribute to consumption not being recorded. Additional text

Appendix A
Schedule of external loans as at 30 June 2010
SUMMARY OF LOAN REGISTER FOR JUNE 2017

Account number	Interest Rate	LOAN AMOUNT	Opening balance as at 01.07.2016	Opening balance as at 01.06.2017	Total Capital Payments	Disbursement	Interest Capitalised to Date	Interest Capitalised for the month	Interest Paid as per Repayment Advice	Balance
Loan Account: 61000536	9.37%	24,285,560.00	12,491,641.08	11,934,593.88	1,003,792.42		1,125,071.90	88,473.71	590,062.97	12,023,067.58
Loan Account: 61000654	9.10%	25,993,166.00	18,430,985.25	14,371,643.33	1,909,926.97		1,376,435.78	105,883.21	1,419,767.52	14,477,726.54
Loan Account: 61000824	11.64%	3,200,000.00	330,574.66	0.00	321,251.89		9,435.26	0.00	18,748.08	-
Loan Account: 61000826	11.45%	2,750,000.00	1,034,021.32	648,441.04	389,057.20		94,340.08	5,987.87	104,875.29	654,428.91
Loan Account: 61000827	11.25%	12,750,000.00	7,250,563.45	6,532,503.52	640,525.03		760,671.55	59,495.48	778,700.97	6,591,999.00
Loan Account: 61000818	9.72%	1,976,000.00	1,718,356.93	1,635,522.13	66,135.85		184,395.64	14,843.90	186,250.69	1,550,366.03
Loan Account: 61000919	10.09%	960,000.00	194,945.08	24,926.03	172,126.13		35,761.53	2,700.43	9,552.20	25,559.99
Loan Account: 61000920	10.69%	800,000.00	381,551.57	339,276.53	55,909.67		143,446.18	50,957.74	320,403.05	341,976.96
Loan Account: 61000921	10.83%	7,000,000.00	5,945,576.54	6,096,576.92	145,896.47		448,371.05	36,043.59	230,657.08	6,107,534.66
Loan Account: 61000385	5.00%	1,850,000.00	1,331,648.51	1,374,842.67	15,638.06		2,216,072.88	163,976.31	1,221,283.25	8,988,319.66
Loan Account: 61007238	9.93%	11,980,174.80	9,151,058.98	8,952,276.09	380,463.27		11,890,931.68	951,046.01	5,921,251.52	21,095,969.92
Loan Account: 61007195	10.40%	41,232,000.00	24,543,000.63	20,932,023.61	4,441,780.34		31,501,457.09	2,569,365.65	31,872,275.58	117,029,869.83
Loan Account: 3042698105	11.44%	284,639,969.00	113,559,100.74	286,275,244.94	4,199,018.35		50,226,931.60	4,061,120.38	42,865,926.11	288,844,610.59
Totals			487,877,652.17	475,156,894.61	16,020,642.62	0.00	50,226,931.60	4,061,120.38	42,865,926.11	479,218,014.99

Newcastle Municipality STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION: APPENDIX E AS AT 30 JUNE 2017

Description	Original Budget	Budget Adjustments (i.e. 828 & 831 of The MEMA)	When not (i.e. Council Approved Budget)	Final Budget	Actual	Unauthorised Expenditure	Variance	Actuals as % of Final Budget	Reasons for Variance
FINANCIAL PERFORMANCE									
REVENUE									
Property Rates	256 072 025	8 828 780		262 802 815	232 285 813	Refer to note 51	30 515 002	12%	The variance is due to the expenditure on indigents, which has been offset against the actual, budget not offset again the budget.
Service Charges	1 084 005 183	(46 405 755)		1 037 599 428	948 273 264		89 326 164	9%	The variance is due to the expenditure on indigents, which has been offset against the actual, budget not offset again the budget. A further portion of the variance is mainly due to fluctuations on electricity and water consumptions.
Rental of facilities and equipment	7 326 268			7 326 268	7 278 219		48 050	1%	The facilities were not utilised in certain months due to logistics of changes in ownerships and the need to repair the facility by the municipality before the new lessor takes occupation.
Investment Revenue	10 099 000	5 652 259		15 751 259	14 835 339		915 920	6%	The variance is attributable to the withdrawal of investments and reserves which were expected to yield more interested.
Transfers Recognised - Operational	325 438 029	6 050 000		331 488 029	527 822 316		(196 334 287)	-59%	The variance is due to capital grants recognised together with operational grants. The municipality did not appropriate any budget on capital transfers recognised. This has however been rectified with the 2017/18 budget.
Fines, Penalties and Feteis	7 661 370	(2 457 024)		5 204 346	3 605 936		1 598 410	31%	Under-performance is due to law enforcement and abatement of citizens to same. The devanent in rolling out of bid for the installation of speed cameras also had an impact as it was expected to be implemented due the current year.
Gain on actuarial valuation					3 559 453		(3 558 453)	#DIV/0!	No budget was appropriated for gain on actuarial valuation. The gain is due to the moratorium to rent the vacant positions and also due to quite a substantial number of exits in employment during the year.
Other Own Revenue	19 072 222	(2 949 194)		16 123 028	12 805 337		3 317 691	21%	Alignment of budget and AFS interest on outstanding debtors is not included on actuals when budget was done it was included.
Total Revenue (Excluding Capital Transfers & Contributions)	1 709 674 097	(33 280 924)		1 676 393 173	1 750 465 876		(74 072 503)	-4%	
EXPENDITURE									
Employee Costs	476 620 382	(4 145 459)		472 474 923	489 819 658	Refer to note 51	(17 344 735)	-4%	Overpayment is mainly due to excessive overtime which was beyond control. Management is in the process of implementing measures during 2017/18 in order to ensure that overtime is curbed to the acceptable level.
Remuneration Of Councillors	21 022 584	(367 786)		20 654 798	20 389 056	Refer to note 51	265 740	1%	Budget was based on the fact that Exco members, Chief Whip and the MPAC chairperson were to be full-time councillors. The application for such status was however declared by the NEC for CoGTA.
Debt Impairment	61 006 705	27 248 897		88 255 602	100 303 930	Refer to note 51	(12 048 328)	-14%	Through ward campaigns, the municipality identified more consumers who upon assessment are unable to settle their debts. Such consumers were declared as indigents and their debts impaired. The rate at which the debt is also escalating necessitated the municipality to provide to addition bad debt provision.

Newcastle Municipality
STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION: APPENDIX E
AS AT 30 JUNE 2017

Description	Original Budget	Budget Adjustments (i.e. s28 & s37 Of The MFMA)	Virement (i.e. Council Approved By Law)	Final Budget	Actual	Unauthorised Expenditure	Variance	Actuals As % Of Final Budget	Reasons for Variance
Depreciation & Asset Impairment	330 120 627	39 466 786		369 587 413	472 119 084	Refer to note 51	(102 531 671)	-28%	The municipality had under-budgeted for depreciation on guidance on NT Circular 52 of MFMA which allows a municipality not to budget for the depreciation portion which arose as a result of revaluation of assets, since the municipality reformed a number of revaluation over the past two years. In order to avoid unauthorised expenditure in future, the municipality will provide a full budget on depreciation of its assets, include the portion on revaluation.
Finance Charges	61 598 164	(11 237 006)		50 662 158	65 783 550	Refer to note 51	(15 121 392)	-30%	The municipality did not budget for interest costs as a result of actuarial valuation, which was resulted in a variance.

Newcastle Municipality STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION: APPENDIX E AS AT 30 JUNE 2017

Description	Original Budget	Budget Adjustments (1 to 528 & 537 of the 2017/18 MJA) (27 641 574)	Virement (i.e. Council Approved By-law)	Final Budget	Actual	Unauthorised Expenditure	Variance	Actuals As % Of Final Budget	Reasons for Variance
Materials & Bulk Purchases	577 973 394			550 331 820	559 945 739	Refer to note 51	(6 613 910)	2%	The over-expenditure is as a result of seasonal fluctuations on electricity consumption, which has increased unexpectedly during the last quarter of the financial year.
Collection costs	19 186 000	(10 636 000)		8 550 000	8 802 170	Refer to note 51	(252 170)	-3%	Additional expenditure was incurred due to negotiation that were delayed with the service provider not to charge a portion of the invoice, which was deemed by management as irregular. When consensus was reached, the municipality was already liable for certain payments.
Repairs and maintenance	84 457 424	(29 536 162)		54 921 262	85 654 026	Refer to note 51	(30 732 764)	-56%	The budget was cut drastically during adjustments budget, however expenditure was incurred due to infrastructure breakdowns.
Contracted services	52 490 350	(5 771 623)		46 718 727	61 245 745	Refer to note 51	(14 527 018)	-31%	The municipality had a plan of cancelling security contracts in some of the sites. However the decision was reversed due to threat of life of certain councillors and of general public is some of the key security sites.
Other Expenditures	270 954 456	39 717 418		310 671 874	223 833 918	Refer to note 51	86 837 956	28%	Cost containment measure were implemented both during the adjustment budget and during the implementation. This was mainly to deal with the cash flow challenges that the municipality is facing. The expenditure on indigents which is included in the budget is also one of the attributing factors to the variance.
Total Expenditure	1 955 731 096	17 097 459		1 972 828 565	2 086 896 876	Refer to note 51	(114 068 291)	-5%	
Surplus/(Deficit)	(246 056 999)	(50 378 413)		(296 435 412)	(336 431 200)		39 995 788	-13%	
Transfers Recognised - Capital								0%	No budget was appropriated for gain on fair value adjustment. The adjustment is due to the valuation of Investment Properties, which was resulted in the increase in the market value of some of the Properties.
Contributions Recognised - Capital & Contributed Assets								0%	No budget was appropriated for gain on fair value adjustment. The adjustment is due to the decrease in the net asset value of the Entity, Ulukoula Water as per the financial position at the reporting date.
Surplus/(Deficit) For The Year	(246 056 999)	(50 378 413)		(296 435 412)	(336 431 200)		(17 119 542)	6%	
Fair Value Adjustment									
Share Of Surplus/(Deficit) Of Associate									
Capital Expenditure									
Transfers Recognised - Capital	185 150 000	32 926 164		218 076 164	188 513 063		29 563 101	14%	Under-expenditure attributed to delays in SCM and appointment of service providers. Some of the projects have been earmarked to be completed in 2017/18 financial year.
Borrowing	90 516 571	(80 516 571)						0%	The municipality initially planned to take an external loan, which decision was later rescinded.
Internally Generated Funds		47 314 200		47 314 200	30 977 550		16 336 650	35%	Slow expenditure was due to cash flow problems and delays in appointing service providers for the relevant projects.
Total Sources Of Capital Funds	275 666 571	(10 276 207)		265 390 364	219 490 613		45 899 751	17%	
CASH FLOWS									
Net Cash From (Used) Operating	215 538 541	22 761 024		238 299 565	233 668 222		4 631 343	2%	Under-performance is due to less payment factor on service charges and other services (lines) which were anticipated to be higher due to the municipality.
Net Cash From (Used) Investing	(273 622 825)	56 442 800		(217 180 025)	(219 405 870)		2 225 845	-1%	Under-expenditure attributed to delays in SCM and appointment of service providers. Some of the projects have been earmarked to be completed in 2017/18 financial year.
Net Cash From (Used) Financing	(31 050 064)	3 389 354		(27 670 710)	(6 347 489)		(19 323 221)	70%	The variance is due to the failure to pay the capital porting of the outstanding loan, mainly due to cash flow challenges.
Cash/Cash Equivalents At The Beginning of the	(89 144 348)	82 592 978		(6 551 370)	5 934 863		(12 486 233)	191%	
Cash and cash equivalents at the beginning of the	39 182 000	5 390 985		44 572 985	44 572 985		90	0%	
Cash/Cash Equivalents At The Year End	(49 962 348,00)	87 983 963,00		38 021 615,00	50 507 758,00		(12 486 143,00)	-33%	

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
Newcastle Municipality Grant Register for June 2017

Number	Vote number	Description	Operating balance	Receipts	Expenditure for JUNE 2017	Adjustments	Total Expenditure before Vat	VAT FOR THE MONTH	Total Vat Amount	Total Expenditure after Vat	Closing balance
1	030952000151	Environmental Management Framework	(502,873.43)								(502,873.43)
2	030952000709	IT - Trade Basha Project	(850,000.00)								
3	030952004385	Cheapest town									
4	030952001597	Electrification Grant	(822,875.11)								
5	030952002097	Newcastle library internet project		(8,000,000.00)	1,172,485.00		8,460,920.24				
6	030952004001	Expanded PwVwoks Initiative	(116,817.60)								
7	030952004001	Municipal Systems Improvement Grant	(8,000)	(179,000.00)			169,817.89				
8	030952005001	Financial Management Grant (FMO)	(877,988.82)		453,445.64		3,173,000.00				
9	030952003601	Grant Skill Development				877,360.82					
10	030952013801	Madisen library internet project	(3,589,413.64)		207,602.34		1,999,323.20				
11	030952023801	Loggia fresh produce	(38,411.18)				109,300.00				
12	030952023801	Outchew library internet project	(1,102,817.20)			612.19	202,811.19				
13	0309520244401	Repair construction storm damage HS	(26,287.88)				867,575.11				
14	0309520244401	MIG	(1,219,040.33)		7,294.50		204,287.88				
15	030952028201	Outchew Arts Centre	0.00			1,318,040.83					
16	030952028501	Concord Development	(38,820.00)		31,206,927.42		98,943,178.04				
17	030952020701	2BC Housing Project	(136,244.37)					2,712,404.59			
18	030952013801	PROVINCIALISATION LIBRARIES	(1,954,887.00)					12,270,924.96			
19	030952010501	CARNEGIE ART GALLERY	(7,287,747.86)		1,954,887.00		865,048.19				
20	030952010701	PORT AMEL MUSEUM	(47,834.27)	(21,120,000.00)	1,479,154.30		5,538,807.94				
21	030952010701	CAPACITY BUILDING HOUSING	(10,778.63)	(279,180.00)	490,197.83		833,102.06				
22	030952010601	NEWCASTLE AIRPORT	(12,884,849.94)				490,107.43				
23	030952030401	Neighbouring Development Partnership Grant	(385,207.18)		2,096,039.47		5,037,439.58				
24	030952023801	Municipal WATER INFRA GRANT					85,140.00				
		New extension section E			14,656,811.92		1,567,765.83				
		TOTAL	(1,083,884.36)	(78,373,000.00)	54,115,851.18		31,407,512.92				
			(3,258,927.20)	(225,843,138.17)	68,357,499.78	(3,172,827.83)	55,747,835.74	1,086,907.53	4,855,184.26	27,613,708.47	(1,256,812.78)
						876,000.00	100,103,046.18	6,811,882.90	24,070,668.78	220,870,318.00	(41,556,018.87)